

ORIGINAL

OPEN MEETING

MEMORANDUM RECEIVED



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2010 JUN 15 A 8: 58

Arizona Corporation Commission

DOCKETED

JUN 15 2010

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 15, 2010

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FOR ITS PARADISE VALLEY WATER DISTRICT (DOCKET NO. W-01303A-98-0507)

I. Introduction

Pursuant to Decision No. 61831 (July 20, 1999), Arizona-American Water Company ("Az-Am" or "Company") filed an application on March 9, 2010, with the Arizona Corporation Commission ("Commission") revising its Central Arizona Project ("CAP") surcharge rate. The revised CAP surcharge rate requested is \$0.4660 per 1,000 gallons of usage, which consists of a surcharge of \$0.2036 per 1,000 gallons of usage to recover the under collection of prior years' surcharge for the years 2006, 2007, and 2008, to be in effect for three years; plus a surcharge of \$.2624 per 1,000 gallons of usage for the collection of the current annual CAP capital and delivery charges. The Company indicates that the under-collected portion from the prior years amounts to \$1,038,386.

The revised combined CAP surcharge of \$0.4660 per 1,000 gallons of usage is applicable to all residential customers' usage in excess of 45,000 gallons during any monthly billing cycle and for all usage of all non-residential customers except re-sale customers.

The current combined CAP surcharge is \$0.2009 per 1,000 gallons of usage and has been in effect since February 1, 2006. Although Decision No. 61831 required the Company to file an annual revision/update of the CAP surcharge by December 1 of each year to become effective each following January 1, the Company failed to revise the CAP surcharge since January 13, 2006, when it late-filed its revision for 2005, resulting in the current rate effective February 1, 2006.

II. Background

On August 14, 1998, Az-Am filed with the Commission a rate increase application seeking a general rate increase and also seeking a revision to its CAP surcharge mechanism. Decision No. 61831 authorized the current calculation methodology which allows the Company to collect its current CAP capital and delivery charges. For the first five years of the revised CAP surcharge there was an additional charge attributed to deferred CAP charges. These

deferred charges, having now been fully collected, are no longer a component of the current CAP surcharge calculation.

The Commission established the CAP surcharge to aid the Company in its efforts to utilize renewable sources of water and minimize its use of ground water.

III. Calculation of CAP Surcharge

Decision No. 61831 indicates that both Staff and the Residential Utility Consumer Office ("RUCO") should review and approve any proposed surcharge changes or true-up. Staff's review of the Company's filing indicated problems with the Company's calculations. Staff filed a notice on April 7, 2010, indicating that Staff had concerns with the surcharge calculations and could not approve the new surcharge amount. On April 30, 2010, Staff filed a Memo to the Docket indicating Staff's specific concerns.

On May 28, 2010, the Company re-filed its application to revise the CAP surcharge. As revised, the Company's combined CAP surcharge rate requested is \$0.2441¹ per 1,000 gallons of usage, which consists of a surcharge of \$0.0872 per 1,000 gallons of usage to recover the under-collection of prior years' surcharge for the years 2006, 2007, and 2008, to be in effect for three years; plus a surcharge of \$0.1570 per 1,000 gallons of usage for the collection of the current annual CAP capital and delivery charges. The Company indicates that the under-collected portion from the prior years amounts to \$444,516. The Company requests that the new surcharge rate become effective July 1, 2010.

For the future, the Company requests that it be allowed to extend its annual filing date from December 1 to January 31 for revising its CAP surcharge. If this is done, the effective date will need to be each following March 1.

Staff finds the Company's revised combined CAP surcharge amount of \$0.2441 per 1,000 gallons of usage acceptable.

Staff believes that, in its next rate application filed for the Paradise Valley Water District, the Company should include the CAP capital cost and delivery charges in its base rates, thereby eliminating the CAP surcharge.

IV. Conclusions and Recommendations

Staff concludes that authorization of the revised CAP surcharge is appropriate.

Staff recommends approval of the revised CAP surcharge as described herein and that it be effective July 1, 2010.

¹ Staff notes a calculation error of \$0.0001, but has not altered it as it is too small and may be due to rounding differences.

THE COMMISSION

June 15, 2010

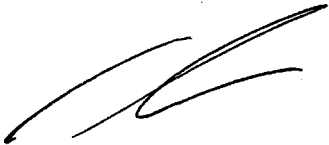
Page 3

Staff further recommends that, in future years, the Company be allowed to extend the date for filing its annual revision from December 1 to January 31 and the effective date for the annual revision be each March 1.

Staff further recommends that, should the Company again fail to timely file its revision to the CAP surcharge, it not be allowed to collect any under-collection from a prior period or, if an over-collection occurs due to non-filing, be required to immediately refund the over-collections, including appropriate interest to be determined by the Commission.

Staff further recommends that the Company be ordered to incorporate in its next rate application filed for the Paradise Valley Water District, the inclusion in base rates of the CAP capital and delivery charges and the elimination of the CAP surcharge.

Staff further recommends that the Company notify its customers of the revised CAP surcharge tariff approved herein by July 30, 2010.



Steven M. Olea
Director
Utilities Division

SMO:DWC:lhmvJMA

ORIGINATOR: Darron W. Carlson

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES

Chairman

3 GARY PIERCE

Commissioner

4 PAUL NEWMAN

Commissioner

5 SANDRA D. KENNEDY

Commissioner

6 BOB STUMP

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF ARIZONA-AMERICAN WATER)
10 COMPANY – PARADISE VALLEY)
11 WATER DIVISION FOR AN INCREASE IN)
12 RATES)
_____)

DOCKET NO. W-01303A-98-0507

DECISION NO. _____

ORDER

13 Open Meeting
14 June 29 and 30, 2010
15 Phoenix, Arizona

16 BY THE COMMISSION:

Introduction

17 1. Pursuant to Decision No. 61831, Arizona-American Water Company ("Az-Am" or
18 "Company") filed an application on March 9, 2010, with the Arizona Corporation Commission
19 ("Commission") revising its Central Arizona Project ("CAP") surcharge rate. The revised CAP
20 surcharge rate requested is \$0.4660 per 1,000 gallons of usage, which consists of a surcharge of
21 \$0.2036 per 1,000 gallons of usage to recover the under-collection of prior years' surcharge for the
22 years 2006, 2007, and 2008, to be in effect for three years; plus a surcharge of \$0.2624 per 1,000
23 gallons of usage for the collection of the current annual CAP capital and delivery charges. The
24 Company indicates that the under-collected portion from the prior years amounts to \$1,038,386.

25 2. The revised combined CAP surcharge of \$0.4660 per 1,000 gallons of usage is
26 applicable to all residential customers' usage in excess of 45,000 gallons during any monthly
27 billing cycle and for all usage of all non-residential customers except re-sale customers.
28

3. The current combined CAP surcharge is \$0.2009 per 1,000 gallons of usage and has been in effect since February 1, 2006. Although Decision No. 61831 required the Company to file an annual revision/update of the CAP surcharge by December 1 of each year to become effective each following January 1, the Company failed to revise the CAP surcharge since January 13, 2006, when it late-filed its revision for 2005, resulting in the current rate effective February 1, 2006.

Background

4. On August 14, 1998, Az-Am filed with the Commission a rate increase application seeking a general rate increase and also seeking a revision to its CAP surcharge mechanism. Decision No. 61831 authorized the current calculation methodology which allows the Company to collect its current CAP capital and delivery charges. For the first five years of the revised CAP surcharge there was an additional charge attributed to deferred CAP charges. These deferred charges, having now been fully collected, are no longer a component of the current CAP surcharge calculation.

5. The Commission established the CAP surcharge to aid the Company in its efforts to utilize renewable sources of water and minimize its use of ground water.

Calculation of CAP Surcharge

6. Decision No. 61831 indicates that both Staff and the Residential Utility Consumer Office ("RUCO") should review and approve any proposed surcharge changes or true-up. Staff's review of the Company's filing indicated problems with the Company's calculations. Staff filed a notice on April 7, 2010, indicating that Staff had concerns with the surcharge calculations and could not approve the new surcharge amount. On April 30, 2010, Staff filed a Memo to the Docket indicating Staff's specific concerns.

7. On May 28, 2010, the Company re-filed its application to revise the CAP surcharge. As revised, the Company's combined CAP surcharge rate requested is \$0.2441¹ per 1,000 gallons of usage, which consists of a surcharge of \$0.0872 per 1,000 gallons of usage to recover the under-collection of prior years' surcharge for the years 2006, 2007, and 2008, to be in effect for three

¹ Staff notes a calculation error of \$0.0001, but has not altered it as it is too small and may be due to rounding differences.

1 years; plus a surcharge of \$0.1570 per 1,000 gallons of usage for the collection of the current
2 annual CAP capital and delivery charges. The Company indicates that the under-collected portion
3 from the prior years amounts to \$444,516. The Company requests that the new surcharge rate
4 become effective July 1, 2010.

5 8. For the future, the Company requests that it be allowed to extend its annual filing
6 date from December 1 to January 31 for revising its CAP surcharge. If this is done, the effective
7 date will need to be each following March 1.

8 9. Staff finds the Company's revised combined CAP surcharge amount of \$0.2441 per
9 1,000 gallons of usage acceptable.

10 10. Staff believes that, in its next rate application filed for the Paradise Valley Water
11 District, the Company should include the CAP capital and delivery charges in its costs in base
12 rates, thereby eliminating the CAP surcharge.

13 11. The Company's revised combined CAP surcharge amount of \$0.2441 per 1,000
14 gallons of usage is reasonable and should be authorized to become effective July 1, 2010.

15 12. Staff's recommendation that the Company include the CAP capital and delivery
16 charges in its costs in base rates and eliminate the CAP surcharge in the next rate increase
17 application filed for its Paradise Valley Water District is reasonable and should be adopted.

18 CONCLUSIONS OF LAW

19 1. The Company is a public water service corporation within the meaning of Article
20 XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

21 2. The Commission has jurisdiction over the Company and of the subject matter of the
22 application.

23 3. Approval of a CAP surcharge is consistent with the Commission's authority under
24 the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

25 4. It is in the public interest to approve the Company's request for implementation of
26 the revised CAP surcharge as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the application by Arizona-American Water Company for the implementation of its revised CAP surcharge is approved as discussed herein.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file a revised CAP surcharge tariff showing both the \$0.0872 and \$0.01570 per 1,000 gallon surcharges; and the future January 31 filing dates and future March 1 effective dates within 15 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its customers of the revised CAP surcharge tariff approved herein by July 30, 2010.

IT IS FURTHER ORDERED that, should Arizona-American Water Company fail to timely file its annual CAP surcharge revision, it will not be allowed to collect any under-collection from a prior period or, if an over-collection occurs due to late or non-filing, it will immediately refund the over-collections, including appropriate interest to be determined by the Commission.

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1 IT IS FURTHER ORDERED that Arizona-American Water Company shall include the
2 CAP capital and delivery charges in its costs in base rates and eliminate the CAP surcharge in the
3 next rate increase application filed for its Paradise Valley Water District.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
8 _____
CHAIRMAN

COMMISSIONER

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10
11 COMMISSIONER

COMMISSIONER

COMMISSIONER

12
13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of
16 this Commission to be affixed at the Capitol, in the City of
17 Phoenix, this _____ day of _____, 2010.

18 _____
19 ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

20 DISSENT: _____

21
22 DISSENT: _____

23 SMO:DWC:lhv\JMA
24
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1 SERVICE LIST FOR: Arizona-American Water Company
2 DOCKET NO. W-01303A-98-0507

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